

Lmd

Labour and management in development

JOURNAL

Volume 9

THE FLEXIBILITY REGIME AND ORGANISED LABOUR IN INDONESIA

Indrasari Tjandraningsih and Hari Nugroho



www.labour-management.utas.edu.au

THE FLEXIBILITY REGIME AND ORGANISED LABOUR IN INDONESIA

Indrasari Tjandraningsih and Hari Nugroho

Since the beginning of 2006, concern has increased about Indonesia's national economy. The mass media, business, economists, politicians and government officials have become increasingly nervous about the lack of buoyancy in economic growth and Indonesia's unpreparedness in the face of apparently unavoidable market liberalisation. Low levels of investment are one indicator of the national economy's uncompetitiveness in the race against China in labour-intensive light manufacturing. A number of industries in the sector, such as food and drink, have grown, but others, including garments and textiles, footwear and electronics have contracted (BKPM 2006; *Kompas* 27 February 2006; *Kompas* 27 April 2006). These developments have not only seriously threatened local industry; they have had important implications for the development of the labour movement. Pressure to move to a free market and sluggish investment have led to increased industrial unrest and mass dismissals, most significantly in the labour intensive industries that are relied upon to absorb large numbers of workers. In addition, plans to revise Law No.13 of 2003 on Manpower have given rise to concerns that shifts from permanent employment to contracting and outsourcing will be further legitimated in an attempt to make Indonesian industry more attractive to investors.

The debate over the merits and dangers of the flexibility regime has polarised the industrial relations community, creating a rift between those who believe that increased flexibility offers a means of overcoming the problem of unemployment by giving capital the opportunity to operate freely in the labour market and to implement effective work processes, and those who see flexibility as a strategy to further exploit workers and control unions. Employers and economists have supported the shift to a more flexible labour market on the grounds that it represents a key strategy in the campaign to attract more investment and create employment opportunities. The labour movement and some other elements of civil society have strongly rejected this strategy, arguing that increased flexibility will worsen workers' social economic conditions and undermine the collective strength of labour.

This article focuses on the way in which the flexibility regime operates in Indonesia and its impact on trade unions. It explains the anatomy and characteristics of flexibility in Indonesia, and analyses unions' responses to it, highlighting the mismatches between the demands of the regulatory framework through which flexibility has been implemented and current practices. In doing so, it seeks to document the impact of increased labour market flexibility on workers and trade unions. The article consists of three parts. The first of these discusses the history and theory of flexibility as a regime. Part Two explains current practices of flexibility in Indonesia, identifying key stakeholders and exploring the implications of flexibility for workers inside and outside the factory, showing how the flexibility regime has failed to produce promised benefits because it is insensitive to the characteristics of the Indonesian labour market, which is dominated by unskilled workers who have little access to government protections. The final section of the chapter focuses more closely on the impact of flexibility on unions, and on unions' responses to the flexibility regime. It describes how unprepared unions are in the face of the flexibility regime.

The primary argument made in this article is that flexibility is not simply a strategy of production under which rigidities that prevent the effective

operation of the labour market and production processes are eliminated. Rather, it is a powerful regime created by collaboration between a range of actors, policies and institutions that systematically works to 'flexibilise' all aspects of production and employment relations in order to maximise capital's profit making opportunities. This configuration is manifested in a range of labour market and industrial relations policies and practices at the factory level and above, which disadvantage both individual workers and unions, as evidenced by the Indonesian experience.

Flexibility refers to the capacity to adapt as fully as possible to changes in an environment, be it social, micro-economic or macro-economic (Meulders and Wilkin 1991). The concept of flexibility can also be used in reference to production processes (Mathew 1989; Sabel 1982) and the labour market.¹ With regard to the labour market, flexibility refers to a strategy where an enterprise can adjust the number and type of workers it employs, alongside wage levels, as market conditions change (ul Haque 2002). This results in a shift from a company based workforce dominated by permanent fulltime employment to one dominated by contract workers and outsourcing. Flexibility at the enterprise level cannot function fully without the support of macro-level labour market flexibility, characterised by a dynamic labour supply, where 'workers are free to allocate their services in response to shifting relative wage opportunities, while firms are free to adjust the workforce in response to shifting relative profit opportunities' (Islam 2001). In its promotion of flexibility, the World Bank argues that workers' desire for job security is an effort of the selfish 'labour aristocracy' to achieve a privileged position at the expense of job creation and that while this satisfies some UN policies it also results in under employment (World Bank 1995; Douglas 2000).

The concept of labour market flexibility, as promoted by the World Bank, emerged from the neoclassical and neoliberal schools of economic thought which developed rapidly in response to the failure of Keynesianism (Kestens 1991), particularly in developing country contexts (Hertz 2004; Mathew 1989). Proponents of flexibility consider the Keynesian model of economic development to be overly interventionist in the social-political sphere and responsible for creating rigidities that interfere with the normal functioning of markets. In particular, economic regulations formulated by political actors involving the state, political parties and unions are understood as causing political distortions in the market which reduce its ability to respond adequately to market pressures. Similarly, strong social-political protections accorded to economic actors are considered to limit market dynamics. Neoclassical and neoliberal thinkers propose that these rigidities can be eliminated by opening up markets, eliminating state intervention, and reducing social pressures considered to interfere with the functioning of the market in order to maximise opportunities for economic actors to compete at the levels of the organisation (company) and the individual (worker). They assume that a fully competitive market, free from protectionist regulations that limit the competitive space available to capital and labour, will create new efficiencies and promote economic growth (Rapley 1997). According to this school of thought, companies and workers must therefore be pushed to compete openly in their respective markets, namely the capital market, the commodities market and the labour market (Rapley 1997; Monastiriotis 2005; Deyo et al. 2001; ul Haque 2002).

The requirement for a flexible labour market demands macro socio-economic policies that guarantee the free operation of that market (Deyo et al. 2001; Monastiriotis 2005). It is assumed that such policies will have a positive impact on economic growth. High occupational mobility in the labour market is believed

to promote job creation. Open competition between workers and the opportunity for companies to use workers flexibly are also assumed to have a positive economic effect, while job security is seen as reducing competition between workers and thus creating barriers to efforts to minimise unemployment. Indicators of labour market rigidity include high unemployment benefits, or benefits that are available for too long; limits on employers' ability to freely hire and fire workers; tight regulation of working hours and overly-generous compensation for overtime; and finally overly-powerful unions that demand protection for workers and overly-tight regulation of occupational health and safety (Sollow 1998).

From a Strategy to a Regime

In the neo-classical understanding of the labour market, the state plays an important role in guaranteeing sufficient levels of flexibility (Mehmet et al. 1999). Paradoxically, this model both demands that political intervention (and therefore the role of the state) is minimised, and that regulations are put in place that guarantee that flexible practices can operate as they should. The state has an interest in supporting such systems in the hope that an adaptable production climate will provide both high levels of growth and support job creation (Hutchison and Brown 2001). The active participation of the state means that flexibility ultimately can no longer be construed as simply a strategy of production and/or labour force management. Rather, it is a broad-based institutional arrangement, which reflects a specific form of capitalism (Gouliquer 2000; Deyo et al. 2001; Sollow 1998; ul-Haq 2004)² or, in other words, a regime.

A regime is a set of institutional arrangements and regulations that has been systematically developed by a particular social alliance, based on a particular ideology and political-economic approach (Chase-Dunn 1991; Pempel 1998; Robison and Hadiz 2004; Petras and Veltmeyer 2003; Deyo et al. 2001). A flexibility regime is given form by the interaction of two more specific regimes, namely a labour regime and an accumulation regime (Candland and Sil 2001; Fan 2004; Scholte 2000; Hoogvelt 1997). According to Candland and Sil (2001:17):

A labour regime may be defined as the pattern of recruitment and the terms and conditions of employment that structure the articulation of worker's concerns and interests to government and to industry, the two owners and managers of productive assets. Labour regimes are overlapping and multifaceted. Labour regimes operate at national, regional, and local levels in all sectors of the economy, formal and informal. They are structured by a variety of laws and social institutions, and the absence of such laws and institutions. The state's license to permit employers, in the private as well as in public sector, to evade labour regulations is also a determining feature of the labour regime..

A labour regime based on the principles of flexibility works to ensure that capital has access to a flexible labour market. Such a regime involves regulations and institutional arrangements that control the wage system, working conditions, the mobilisation and placement of labour, the kinds of industrial work that are prioritised, and the role and function of unions. Meanwhile an accumulation regime based on those same principles is comprised of a set of institutional arrangements designed to control the organisation of the process of production (Hoogvelt 1997:107).

A flexible production regime demands a workforce that is easily placed in different kinds of work, and whose numbers can be varied according to the demands of the production cycle. This requires workers to be able to multi-skill and multi-task (Legge 1995; Haralombos and Holborn 2004:644). The use of casual

and contract workers, and outsourcing, are additional strategies on behalf of capital to ensure that the labour force is easily mobilised. The development of the flexibility regime has thus been facilitated by post-Fordist models of capital accumulation, characterised by the flexible organisation of production alongside the fragmentation of capital and production through systems of sub-contracting. This has resulted in the blurring of the definitions of ownership, labour force, and labour force productivity, and has created conditions in which it is far easier to organise production according to market dynamics (Hoogvelt 1997; Scholte 2000:223).

Mechanisms of institutional control within the flexibility regime involve alliances that spread beyond the workplace, to the national and international levels (Candland and Sil 2001; Deyo 1995; Pempel 1997). Within the workplace, capital and labour supply institutions sometimes even unions form concrete strategic alliances to promote flexibility, while at the national level alliances involve the state, business interests and market-focused sections of the community. The alliance between capital and the state is particularly strategic at this level, where flexibility is supported by labour regulations formulated and implemented by instruments of the neo-liberal state. For example, in many OECD countries there are now much less restrictive laws about hiring and firing (Scholte 200:223). The role of the state in providing protection for workers and unions has also been reduced, as a shift has occurred from the protective, state-sponsored mechanisms of tripartism towards bipartite structures of negotiation. This is also occurring in the developing countries of Asia and Latin America (Deyo 1995; Martin 2001). At the international level the campaign for flexibility as a recipe for economic development and the creation of free markets has gained momentum with the formation of a range of new institutional agreements, policy papers and indicators of economic growth and capital investment. Flexibility of hiring and firing is used by the World Bank, the International Monetary Fund and the World Trade Organisation as an indicator of labour market status (World Bank and International Finance Corporation 2006; Bakvis 2006). Industrialised countries have also played an important role in institutionalising flexible labour market practices at the international level, led by powerful capital interests for these countries of the 'North'. Meanwhile the governments of newly industrialised countries have welcomed these developments. A number of efforts to insert the social clauses concerning the protection of workers from the Generalised System of Preferences (GSP) into the agreements formulated by the World Trade Organisation have in fact been rejected by industrialising states. Similarly, social charters occupy a marginal position at the regional level such as the European Union, the Asean Free Trade Agreement (AFTA), and MERCOSUR (Scholte 2000:225).

In developing countries themselves, the flexibility regime manifests itself in a wide range of different forms. In the Southeast Asian region, pressure from capital markets is extremely strong. According to World Bank data, Singapore, Malaysia and Thailand constitute a region that serves as a model of flexible labour market policies and practices, particularly in the case of Singapore (World Bank and International Finance Corporation 2006:23). Their 'success' in this matter is measured by World Bank indicators of the ease with which workers are hired and fired. Deyo (1995) and Rasiah (2001) suggest that until the end of the 1990s, the process of institutionalising flexible labour market practices was still stabilising; however statistics suggest that at the very least, there has been no letup in the movement towards implementation of the flexibility regime.

Implications for Workers

As this discussion suggests, flexibility is no ordinary strategy of production or labour management; rather it is a fully-fledged regime manifested within an extremely complex web of institutional arrangements that reach well beyond the limits of the company, and indeed of the nation. This has created a space in which the positivistic and optimistic assumptions, which gave rise to the flexibility regime, in the first place can be subjected to empirical scrutiny. Such scrutiny demonstrates that the basic principles of labour market flexibility are inherently damaging for workers, because in practice those principles demand the institutionalisation of a dualistic labour market at the workplace level based on differential employment status. Conflict between permanent workers on good wages and poorly paid casual labour inevitably weakens labour unions. Flexible labour markets lead to increasing job insecurity and economic uncertainty, which promotes individualism at the expense of labour collectivism, while simultaneously minimising the role of the state in industrial relations. It is assumed within the discourse of the flexibility regime that workers have the flexibility to shift between occupations and sectors. However, empirical experience demonstrates that workers' access to control over their labour is inversely proportional to their level of skill. As the experience of Europe and North America shows, from the workers' perspective, flexibility is available largely only to skilled labour with high levels of education in other words, employees in managerial and professional roles (Wallace 2003). The Japanese experience suggests that flexibility does indeed benefit skilled labour, but at the same time puts downward pressure on wages and benefits for semi-skilled or unskilled workers (Weathers 2001), while the American case confirms that flexibility offers only a dead end for unskilled labour, regardless of their gender or ethnicity (Zeytinoglu 2005), since in practice, unskilled workers have little opportunity to move out of contract work into better employment, particularly in contexts where there is an oversupply of low-quality labour. This problem is manifestly obvious in the labour markets of countries like Indonesia, which are characterised by a serious imbalance between skilled and unskilled labour.

The Practice of Flexibility in Indonesia³

The discourse of labour flexibility emerged in Indonesia before the economic crisis of 1997-98 (Islam 2001; Manning 1998). However, it had to contend with the dominance of a centralistic, paternalistic approach to national social and economic policy-making and a system of industrial relations that offered no support for the concept of a flexible labour market (Islam 2001). During the crisis period the International Labour Organisation (ILO), with the support of USAID, pushed Indonesia to make its labour market more flexible with the objective of reducing its levels of unemployment and poverty (ILO 1999). However, the concept of labour flexibility only really took hold at the national level in 2003 when the *Badan Perencanaan dan Pembangunan Nasional* (Bappenas, National Planning Development Agency), released a white paper on labour policy, entitled the *White Paper on Employment Friendly Labour Policy* with the support of the World Bank, IMF, and the Meeting of the Consultative Group on Indonesia, whose interests lay in the liberalisation of the Indonesian economy.

Our research in enterprises owned by European companies confirms that the most influential factor behind companies' attempts to implement flexible work processes is the need to compete more efficiently in the market, either to improve their position, or simply to survive. The implementation of these processes in the nature of the employment relationship where requires a reorganisation of production/work and technological changes that affect both management's ability to control the work process and the work process itself (Littler 1990:77-86).

Our study also confirms the findings of a number of other studies (cf Goliquer 2000) that indicate that increased use of technology tends to make production processes more efficient, but has a negative effect on workers. Our research also indicates that technological change aimed at making work processes more flexible has been accompanied by changes in the management of labour towards more flexible labour relations (AKATIGA-TURC-LABSOSIO UI 2006). This has had a number of consequences for labour. First, increased flexibility has resulted in decreased access to work through dismissal, as well as decrease in working days or access to overtime, which has led to a drop in income. Second, there has been a substantive change permanent employers of the main company become temporary employees of a different company altogether. This has resulted in the increasing commodification of labour, and fragmentation of the workforce according to whether they are permanent, contract or outsourced workers.

The institutionalisation of the concept of flexibility became more intensive during the period when a number of labour laws were revised. In addition to international institutions, Bappenas, the Department of Manpower and Transmigration and the Coordinating Ministry for the Economy, Finance and Industry representing the interests of the state a number of economic think tanks and economists were involved in this process of institutionalisation. While this macro-level social coalition continued to move towards a stronger position from which to push for the implementation of policies favouring flexible labour markets, at the enterprise level, practices of flexible production and labour market flexibility had already been in place for a number of years, in many places in violation of the labour regulations of the time. In the context of post-Suharto Indonesia, the operation of the flexibility regime also became closely associated with the framework of regional autonomy, as new actors emerged at the regional level, strengthening the social coalition supporting the regime. Flexible practices were legalised through the labour policy enacted in Law No.13 of 2003 on Manpower, at the core of which sat the concepts of capital mobility and flexible operation through subcontracting and outsourcing.⁴ The direct effect of this legislation has been the introduction of flexible industrial relations practices in the form of contract labour and third party labour recruitment practices on a very large scale. These practices have been implemented by foreign owned and domestic labour intensive companies that require low levels of skill, producing garments, footwear, electronics, food and beverages. However, they have also been adopted in the service sector and the extractive industry sector.

Before workers and unions had the opportunity to develop a comprehensive understanding of the practical implications of flexibility, plans were already in place to revise Labour Law No.13 of 2003. The planned revisions adopt both flexible and neoliberal principles, such as a decrease in state protection (Article 35:3); open competition between Indonesian and foreign workforces (Article 46:1-2); uncertain employment terms (Article 50); job insecurity and benefits (Articles 59, 64-66). The plans to revise Labour Law No.13 of 2003, which are damaging to workers but considered 'too liberal' by some business owners,⁵ are awkward since it is not clear who is procedurally responsible for the draft revisions. In addition, while on one hand Law No.13 of 2003 legitimated flexible work practices, on the other the flexibility regime has operated in Indonesia by taking advantage of poor enforcement of that same law. Even though Law No.13 of 2003 legalised flexible work practices, it also contained a number of loopholes that have created opportunities for flexible practices that do not meet the spirit of the law as a number of articles in the law have given rise to conflicting legal interpretations. One example is the interpretation of the limits on the kinds of jobs that can be outsourced (Herawati 2006). The range of tasks that a company

can outsource depends heavily on how a company (and indeed an industry) defines its 'core business'. The more narrowly core business is defined, the wider the opportunities for developing a flexible labour force.⁶ Another important feature of the flexibility regime is the laxity of local labour offices' efforts to monitor the rights for workers employed under outsourcing arrangements. Indeed it could be said that state oversight of the regulations deliberately allow violations of labour regulations since a number of the violations of the rules governing labour outsourcing occur on a massive and institutionalised scale. As shown below, this phenomenon is closely associated with the conflict of interest government institutions experience between their obligation to guarantee workers' rights and their position in social alliance networks that support labour outsourcing.

As noted above, the most common forms of flexible labour relations are outsourcing and contract labour. The employment of contract labour via labour agents is extremely beneficial to companies because it minimalises their need to interact with workers and provides labour significantly more cheaply. Outsourcing has created a situation in which workers have two bosses. Workers are engaged in the relations of production directly with the company whose products they produce; however, their access to their labour rights with regard to issues such as wages is determined by the labour supply agency. Essentially this process is based on a commodification of labour through the creation of a secondary labour market.

Outsourced workers, particularly unskilled workers, are vulnerable to poor work conditions and interrupted opportunities for work.⁷ They also experience double exploitation from the labour supply agency and the company where they physically work. In order to obtain and maintain work, they have to pay registration fees and a monthly contribution to the labour supply agency if they wish to continue to work (usually a percentage of the wages they earn).⁸ They earn the minimum wage and receive an allowance for food and transportation, but their wages never rise since they are employed for short periods. Even if they succeed in having their contracts renewed at the same company, they are reappointed on the base level wage. Their contracts are extremely unclear, and can be terminated at any moment without notice. Outsourced workers have no bargaining position, and no institution defends them collectively or as individuals. Outsourced workers are explicitly and symbolically distinguished by the uniform they wear, which is different from that worn by workers employed directly, and even from that worn by outsourced workers from different labour supply companies. This makes them immediately identifiable, and serves physically and psychologically to emphasise the difference between different groups of workers. Yet these same workers are not differentiated by the work that they do. In almost all factories included in the study, outsourced workers do exactly the same work as those recruited directly; they just have differential access to their labour rights.

The implementation of flexible labour relations through contract work and outsourcing has both direct and indirect effects on the mechanisms through which workers are controlled. The shrinkage of direct employment in the vast majority of companies included in our study has made permanent workers fearful for their future, and thus more obedient and productive. The same phenomenon is evident amongst contracted and outsourced workers, whose job security is very low. The only way that they can maintain employment is to work hard and keep their heads down in the hope that their contracts are extended. But even this does not guarantee their future since labour supply companies' decisions about whether or not to renew an outsourced worker's contract rely less

on their performance at work than on the sheer numbers of workers waiting to be placed. Our research findings thus suggest that the assumption that increased flexibility leads to increased availability of work is flawed. What occurs instead is that there is a shift in employment opportunities. One group of workers is given work for a short time and then they are replaced by another group of workers. The first group is then returned to the labour market as job seekers, and so on. This high level of job insecurity creates a situation where workers are pitted against one another out of fear for their own employment prospects. Similarly the assumption that workers always benefit from opportunities to shift between job and sectors is flawed since it fails to take into account the fact that cross sectoral transfers require new skills - skills that unskilled jobseekers seldom have.

Flexibility also increases the scope of the actors with which workers must interact, not only in the context of the relations of production, but in their social relations. Our research indicates that under regional autonomy, many outsourcing companies are owned or managed by local public figures, government bureaucrats or *preman*.⁹ For example, in Tangerang, dozens of outsourcing companies have been established by local union officials, company managers, community figures, local members of parliament and bureaucrats since Labour Law No.13 of 2003 was passed.¹⁰ Community figures use external sources of power available to them through their paternalistic social relations with individuals who require work. Conversely *preman* use coercive powers developed through violence within the community, and through their ability to force companies to grant them access to labour supply channels.¹¹ More strangely still, many labour supply companies are owned and run by personnel managers or even union officials in the companies where those workers are employed. These contradictions reflect the complexity of the networks involved in the commodification of labour, under which workers are no longer simply instruments in the process of production, but rather commodities controlled by actors with access to these internal sources of power. These examples highlight the fact that the positive assumptions about the impact of flexibility are flawed. Workers face the degradation of working conditions, job and economic insecurity, and the absence of institutional protection against exploitation. This situation reflects at least two things. First, the flexibility regime has placed employers in a strong bargaining position and minimalised the level of economic uncertainty they face.¹² This has an inverse correlation with the level of certainty and bargaining position of workers. Second, the flexibility regime has changed the shape of labour relations. It has commodified the workforce through institutional structures, policies and labour regulations which shape social networks at the workplace level as well as the national and international levels. As suggested above, in practice, the flexibility regime works through both formal structures (such as normative policies and labour institutions) and nonformal, often illegal, practices in the field. Trade unions in the flexibility regime Flexibility has posed substantial challenges to the continuing functionality and existence of unions because the systematic fragmentation of workers has had a direct effect on workers' collectivism. It is difficult for a culture of cohesion and collective solidarity to grow when workers' status and not differences in their type of work divides them, and when workers wear different uniforms within the same work unit, the difference in workers' status becomes clear and explicit. On a global level, unions have signalled their concern over the threat posed to them by the shift to flexible production and flexible work processes, which they identify as a key cause of the crisis in the labour movement. As a result of flexibilisation, 'once stable working classes have been replaced by a network of temporary and cursory relationships with subcontractors and temporary help agencies with the

result of a structurally disaggregated and disorganised working class...' (Silver 2003:5). In Indonesia, trade unions have encountered the flexibility regime within a climate of free association brought about by the era of *Reformasi*. Unions' ability to take advantage of the opportunities presented by *Reformasi* has been undermined by a combination of poor economic conditions and the implementation of flexibility. In the current labour climate, joining a union is considered to be a threat to ongoing job security, rather than a viable way of defending one's rights.

Our field data show that the job insecurity promoted by the flexibility regime is a potent tool in curbing union strength (AKATIGA-TURC-LABSOSIO UI 2006). Outsourced workers sit on the lowest rung in terms of their working conditions and their interaction with other workers. Their 'non-traditional' status and unstable working hours have also led unions to exclude them from membership, in the process redefining collectivism within a narrower scope, and threatening to extinguish it altogether (AKATIGA-TURC-LABSOSIO UI 2006). Yet at the same time that unions exclude contract and outsourced workers, those same workers protect their jobs by avoiding contact with the union. Increased job insecurity also makes permanent workers more wary of joining a union. As a result, the rapid growth in the number of unions has not resulted in an increase in union density.¹³

Indonesian unions' slowness to respond to the threat of flexibility can be explained by internal and external factors. Until 2005, workers' concern regarding the implementation of flexibility was still concentrated at a local level, where unions tended to be accommodating, because they have no power to be otherwise. A strong but sporadic response has been evident at the national level since the end of 2005, when unions began to campaign against the government's plans to allow more flexibility or has something been omitted in the proposed revision of Labour Law No.13 of 2003. Unions' resistance towards the proposed revision was supported by activists, NGOs and academics, who joined in demonstrations and provided both moral and logistical support, such as conceptual sources of argument to oppose the revisions. The hype surrounding the resistance to the revisions of Labour Law No.13 of 2003 reached a peak on May Day 2006. Hundreds of thousands of workers from a variety of unions flocked to the streets to oppose the proposed revisions in Jakarta, Bandung and Surabaya, the most important industrial and manufacturing centres in Indonesia. In Jakarta, the demonstration was directed to the heart of the central and provincial government, the President's and the Governor's offices, the institutions which were responsible for the law (*Media Indonesia* 1 May 2006, *Suara Pembaruan* 1 May 2006, *Kompas* 2 May 2006). Demonstrators targeted these two institutions in an attempt to insist on state support for workers who were vulnerable in the face of capital. The demonstration proved effective insofar as the government declared it would return to the revisions and repeat the entire revision process. In addition to forming a tripartite national forum in which the three major union confederations were involved, the government also employed five national universities to legitimate the revision process and called for an independent evaluation in an effort to guarantee objective results in the revision process. Meanwhile, our research suggests that unions have not been able to resist the effects of the flexibility regime at the factory level (AKATIGA-TURC-LABSOSIO UI 2006). A partial explanation for this lies in the fact that management places union leaders in good positions, or even in management. As a result, a group of privileged permanent workers has gradually appeared, consisting of trade union leaders and activists, with good working conditions and facilities. This strategy makes those leaders unaware that they too are facing the threat of flexibilisation.

Another explanation can be found when looking at the characteristics of older unions. All the trade unions in European companies that we researched were descended, or had split, from SPSI, the former state-sanctioned union. These 'new' unions have continued to use SPSI's ideology and strategies. In the factory, this translates to a tendency for unions to define themselves as 'partners with management'. As a result, the changes that have occurred regarding work processes, technology, and management of the workforce, as well as a redefining of workers following these processes, have been outside workers' control. Our research shows that, with the exception of one company, almost no steps had been taken by management to include workers in discussions on policy changes to production. 'Consultations' are usually just announcements.

In one example, several companies claimed that it was more 'economical' to transfer permanent workers from one of the divisions (transport and packing) to labour supply companies. In one factory, this transfer process was preceded by negotiations in which it was decided that workers would be dismissed with the appropriate severance pay and then directed to designated labour supply companies. They would still be able to work, albeit with a different status and employer, but with a significant reduction in job security. However, in other companies, transfers were carried out in secret, without any forewarning to workers. The unions in these factories did not appeal on behalf of these workers, thereby aiding management's flexibility policy. In order to make these processes work smoothly, management protects a small group of permanent workers, including union leaders, from the direct effects of flexibility. At several factories, conditions for permanent workers were satisfactory, which meant that they tended not to be critical, or indeed see flexibility as a necessity. In several other factories, union leaders were chosen for immediate promotion. Management strategies such as these, are often carried out in order to prevent unions from requesting organisational changes (Hutchison and Brown 2001) and often serve the interests of management rather than the unions. In short, there is no evidence to date of systematic efforts on the part of unions to develop a strategy to deal with flexibility. At the national level, union confederations have been divided in their response to the coalition of government and industry seeking to eliminate barriers to flexibility. At a local level, unions are reactive, and tend to accept management's plans to implement more flexible work practices. Their ability to respond effectively is limited both by their poor human resources and the complexity of industrial relations under regional autonomy. When unions do respond to flexibility, they tend to take a legalistic perspective, or focus entirely on the lived experiences of workers. However, these practices are only a small part of the way the flexibility regime works. Flexibility is a complex regime, which operates systematically and globally, involving political and economical institutions from the local to the national levels. Unions clearly need to develop a better understanding of the flexibility regime if they are to forge a coherent response to it. Amongst those workers who do consider flexibility a dangerous threat, several small efforts have begun, such as drawing up a draft statement to analyse flexibility more critically. These efforts are still embryonic and need to lay the initial foundations to achieve a more effective impact in the future.

Conclusion

Proponents of the flexibility regime argue that labour market flexibility has not yet reached its full potential and that it still needs to be expanded. However, the Indonesian experience demonstrates that the expansion of the flexibility regime has been both systematic and inexorable. In Indonesia, the flexibility regime has received full support from the government and industry, which have created

institutions and regulations to ensure its effectiveness, in particular, through the institutionalisation of labour outsourcing. In practice, the regime has also relied on deviations from existing regulations and labour laws.

The primary goal of flexibility is the encouragement of corporate competition through the elimination of obstacles and inefficiencies in the operation of capital. In order to achieve this goal, several basic principles must be implemented. The most important of these are the reduction or eradication of regulations protecting workers and a narrowing of the state's role in labour affairs and processes of labour conflict resolution. This process results in the abolition of tripartite mechanisms and the establishment of labour regulations, which ease the process of recruitment and dismissal. In fulfilling these principles, the state rejects its role as protector of workers, leaving them more susceptible to poor treatment, and the degradation of their working conditions (a decrease in wages and opportunities for overtime, job insecurity and lower income); changes to employment status from permanent to contract workers; fragmentation based on employment status; and the commodification of the workforce.

The weakening of unions in Indonesia echoes the experience unions elsewhere under the global flexibility regime. In Indonesia, workers' position under the flexibility regime is exacerbated by an under-skilled and oversupplied labour market, a weak labour movement and the absence of support for workers from other segments of civil society. At a national level, unions have not taken advantage of the opportunity to present a united front in national-level resistance to the flexibility regime, and their fragmentation has decreased the labour movement's bargaining power with government and capital. At the enterprise level, fragmentation of the workforce, a key characteristic of the flexibility regime, has eroded unions' strength. The creation of three categories of workers, namely permanent, contract and outsourced workers, has led to the evolution of a labour aristocracy, coopted by capital and subdued by the threat labour market flexibility poses to their employment security. While many of these 'elite' workers may remain critical on a number of technical issues associated with the flexibility regime, they are overwhelmingly coopted by corporate ideology, resulting in a clear degradation of labour collectivism and solidarity. In short, the Indonesian case demonstrates that flexibility cannot guarantee an improvement in workers' job security or long-term prosperity. These goals are only achieved as a result of bargaining processes, which balanced the collective strength of workers with that of capital as well as the state in a democratic political climate a situation that is incompatible with the expansion of the flexibility regime.

REFERENCES

- Akatiga-Turc-Labsosio U I., 2006. 'Promoting Fair Labour Regulations In Indonesia: A Study And Advocacy In Improving Local Level Investment Environment In Tangerang And Pasuruan', Viewed 9 September 2006, [Http://Www.Akatiga.Or.Id/Html](http://Www.Akatiga.Or.Id/Html).
- Bakvis, P., 'How The World Bank And Imf Uses The Doing Business Report To Promote Labour Market Deregulation In Developing Countries' *A Paper Of Icfu-Washington Office*, Viewed 14 Sept 2006, [Http://Www.Icfu.Org/Www/Pdf/Doingbusinessicftuanalysis_0606.Pdf](http://Www.Icfu.Org/Www/Pdf/Doingbusinessicftuanalysis_0606.Pdf).
- Batubara, C., 2002. 'Hubungan Industrial Di Indonesia: Aspek Politik Dari Perubahan Aturan Tempat Kerja Dekade Sembilan Puluhan Dan Awal Dua Ribuan', Unpublished Thesis. Universitas Indonesia, Jakarta.
- Blyton, P. and Turnbull, P., 1998. *The Dynamics Of Employee Relations*, Macmillan Press, Houndsmills, Basingstoke, Hampshire And London.

- Bkpm., 2006. Statistik Perkembangan Penanaman Modal Di Indonesia, Bkpm, Jakarta.
- Candland, C. and Sil, R., (eds) 2001. *The Politics Of Labour In A Global Age: Continuity And Change In Late Industrialising And Post-Socialist Economies*, Oxford University Press, New York.
- Douglas, W.A., 2000. *Labour Market Flexibility Versus Job Security: Why Versus?*, Viewed 6 March 2006, [Www.Newecon.Org/Labour Flex_Douglas.Html](http://www.Newecon.Org/Labour Flex_Douglas.Html).
- Caraway, T.L., 'Legacy Unions In New Democracies', Paper Prepared For American Political Science Association Annual Meeting, Philadelphia, 31 August - 3 September.
- Chase-Dunn, C., 1991. *Global Formation: Structures Of The World Economy*, Basil Blackwell, Oxford.
- Deyo, F.C., 1995. 'Human Resource Strategies And Industrial Restructuring In Thailand', In *Industrialisation And Labour Relations: Contemporary Research In Seven Countries*. Edited By S. Frenkel And J. Harrods, Ilr Press Ithaca, New York.
- Deyo, F.C., Doner, R.F. and Hersberg, E., (eds) 2001. *Economic Governance And The Challenge Of Flexibility In East Asia*, Rowmann And Littlefield, Lanham, Boulder, New York, Oxford.
- Fan, C., 2004. 'The State, The Migrant Labour Regime, And Maiden Workers In China', *Political Geography*, 23:283-305.
- Gouliquer, L. 2000. 'Pandora's Box: The Paradox Of Flexibility In Today's Workplace' *Current Sociology*, 48(1):29-38.
- Haralombos, M. and Holborn, M., 2004. *Sociology: Themes And Perspectives* (6th eds), Harpercollins, London.
- Herawati, R., 2006. *Outsourcing: Mengapa Harus Diwaspada?*, Akatiga, Bandung.
- Hertz, N., 2003. 'Hidup Di Dunia Material: Munculnya Gelombang **Neoliberalisme**'. In *Neoliberalisme*, Edited By I. Wibowo And F. Wahono. Cindelas Pustaka Rakyat Cerdas, Yogyakarta:13-46.
- Hoogvelt, A., 1997. *Globalisation And The Postcolonial World: The New Political Economy Of Development*, Macmillan Press, Houndmills, Basingstoke, Hampshire And London.
- Hutchison, J. and Brown, A., (eds) 2001. *Organising Labour In Globalising Asia*, Routledge, London And New York.
- International Labour Organisation (1999) *Demystifying The Core Conventions Of The Ilo Through Social Dialogue: The Indonesian Experience*, Ilo Jakarta Office, Jakarta.
- Islam, I., 2001. 'Beyond Labour Market Flexibility: Issues And Options For Post Crisis Indonesia', *Journal Of The Asia Pacific Economy*, 6(3):305-334.
- Kestens, P., 1991. 'The Place For Flexibility In Contemporary Economic Policy', *A Discussion Paper On Labour Market Flexibility*. Ilo-Iils, Geneva.
- Legge, K., 1995. 'Hrm: Rethoric, Reality And Hidden Agendas'. In *Human Resources Management: A Critical Text*, Edited By J. Storey. Routledge, London:33-59.
- Littler, C. R., 1990. 'The Labour Process Debate: A Theoretical Review 1974-1988'. In *Labour Process Theory*, Edited By D. Knights And H. Willmott. Macmillan Press, Houndmills, Basingstoke, Hampshire, London:46-94.
- Manning, C., 1998. *Indonesian Labour In Transition: An East Asian Success Story?* Cambridge University Press, Cambridge.
- Manurung, M., 2006. *Paradoks Fleksibilitas Pasar Tenaga Kerja*, Viewed 15 September 2006, [Http://Indoprogress.Blogspot.Com](http://Indoprogress.Blogspot.Com).

- Martin, S.B., 2001. 'Network Ties And Labour Flexibility In Brazil And Mexico: A Tale Of Two Automobile Factories'. In *The Politics Of Labour In A Global Age: Continuity And Change In Late Industrialising And Post-Socialist Economies*, Edited By C. Candland And R.Sil. Oxford University Press, New York:95-131.
- Mathews, J., 1989. *Tools Of Change: New Technology And The Democratisation Of Work*, Pluto Press, Sydney.
- Mehmet, O., Mendes, E. and Sinding, R., 1999. *Towards A Fair Global Labour Market*, Routledge, London.
- Meulders, D. and Wilkin, L., 1991. 'Labour Market Flexibility: Critical Introduction To The Analysis Of A Concept'. *A Discussion Paper On Labour Market Flexibility*, Ilo-Iils, Geneva.
- Monastirirotis, V., 2005. 'Labour Market Flexibility In The Uk: Regional Variations And The Role Of Global/Local Forces' *Economic And Industrial Democracy*, 206 (3):443-477.
- Petras, J. and Veltmeyer, H., 2003. *System In Crisis, The Dynamics Of Free Market Capitalism*, Zed Books, London.
- Pempel, T.J., 1998. *Regime Shift: Comparative Dynamics Of The Japanese Political Economy*. Cornell University Press, Ithaca, Ny And London.
- Rapley, J., 1997. *Understanding Development: Theory And Practice In The Third World*, Ucl Press, London.
- Rasiah, R., 2001. 'Labour And Work Organisation In Malaysia's Proton'. In *Organising Labour In Globalising Asia*, Edited By J. Hutchison And A. Brown, Routledge, London And New York.
- Robison, R. and Hadiz, V.R., 2004. *Reorganising Power In Indonesia: The Politics Of Oligarchy In An Age Of Markets*, Routledgecurzon, London.
- Sabel, Charles F., 1982. *Work And Politics: The Division Of Labour In Industry*, Cambridge University Press, Cambridge, London, New York.
- Scholte, J.A., 2000. *Globalisation: A Critical Introduction*. Palgrave, New York.
- Silver, B.J., 2003. *Forces Of Labour: Workers' Movements And Globalisation Since 1870*, Cambridge University Press, Cambridge.
- Sollow, R.M., 1998. *What Is Labour-Market Flexibility? What Is It Good For?*, Viewed 6 March 2006, [Http://www.Britac.Ac.Uk/Pubs/Src/Keynes97/Text1.Html](http://www.Britac.Ac.Uk/Pubs/Src/Keynes97/Text1.Html).
- Tjandraningsih, I., 2002. *Fishing In The Same Pond: Trade Unionism In The Freedom Of Association Era In Indonesia*, Institute Of Social Studies, The Hague.
- Ul Haque, I., 2004. 'Globalisation, Neo-liberalism And Labour' *Discussion Paper No. 173*, Geneva: Unctad, Viewed 20 March 2006, [Http://Www.Unctad.Org/En/ Docs#059dp.20047_En.Pdf](http://www.Unctad.Org/En/Docs#059dp.20047_En.Pdf).
- Wallace, C., 2003. *Work, Flexibility In Eight European Countries: A Cross-Na-tional Comparison*, Institute For Advanced Studies, Vienna.
- Watson, T.J., 1997. *Sociology Of Work And Industry*, Routledge, London.
- Weathers, C., 2001. 'Globalisation And The Paradigm Shift In Japanese Industrial Relations'. In *The Politics Of Labour In A Global Age: Continuity And Change In Late-Industrialising And Post-Socialist Economies*, Edited By C. Candland And R.Sil. Oxford University Press, New York:156-177.
- World Bank. 1995. 'Workers In An Integrating World', *World Development Report*, Oxford University Press, New York. World Bank And International Finance Corporation. 2006, *Doing Business In 2006: Creating Jobs*, Ibrd/The World Bank, Washington.

Zeytinoglu, I. U. and Lillevik, W., 2005. 'Introduction, Overview Of The Chapters In Flexibility In Workplaces And Emerging Issues'. In *Flexibility In Workplaces: Ef-fects On Workers, Work Environment And The Unions*, Edited By I.U. Zeytinoglu, Iira/Ilo, Geneva:1-6.

Notes

- 1 There are many definitions and concepts that have been developed to describe different types of flexibility. Piore dan Sabel proposed the concept 'flexible specialisation', which combines various dimensions of flexibility in systems of production and labour market flexibility into a dingle definition (Mathew 1989; Sabel 1982). Meanwhile, many writers have adopted a classification that differentiates between functional and numerical flexibility (Gouliquer 2000; Blyton and Turnbull 1998). The concept of functional flexibility is similar to the concepts of 'flexible specialisation' and 'organisational-technical flexibility', which both refer to flexibility in the organisation of production processes (Mathew 1989; Meulders and Wilkin 1991), while numerical flexibility relates to the ability to vary the number of workers who are employed.
- 2 Gouliquer, Sollow, and ul-Haque do not use the term 'regime', and Deyo prefers the term 'governance'. What is clear however is that all these authors suggest that flexibility works most effectively when it is supported institutionally beyond the factory. Indeed, broad-based institutional support are the key to the effective operation of flexible systems.
- 3 The information presented in this section is based on a research project completed by three institutions, namely AKATIGA-TURC-LABSOSIO UI with support from the European Union. The project, which focused on European investment and the regulation of Indonesian labour under regional autonomy, was conducted in 2005-2006. Our research confirmed that the flexibility regime and flexible labour practices were being implemented in European companies. The study is one of very few in-depth studies into flexibility in Indonesia.
- 4 Flexible practices were first made legal under Law No.13 of 2003; however a strong polemic continues between workers and employers about what status flexibility has under that law. Workers consider Articles 59 and 64-66 concerning contract employment and outsourcing as a form of state legitimation for flexible employment practices, while employers consider Articles 150-172 concerning dismissals and compensation as a form of labour market rigidity that limits flexibility.
- 5 Discussion with APINDO and Bappenas, December 2006.
- 6 Law No.13 of 2003 regulates companies' opportunities to outsource. Under the law, companies can outsource non-core work, specifically catering, maintenance and security.
- 7 It should be noted that 'unskilled labour' does not mean 'uneducated labour'. It is now standard for companies to demand a senior high school education for even the most mechanistic and routine tasks. Similarly, the definition of 'skill' continues to be debated.
- 8 Data collected from interviews in January 2007 suggests that outsourced workers' wages in Tangerang are subject to deductions of up to 50 per cent from labour management companies.
- 9 The involvement of preman (local thugs) in industrial relations issues has been identified since 1998. A number of studies since that time have discussed the role of preman as intermediaries between workers and employers, instruments of control which employers employ against workers, and as workers' patrons in confrontations against employers (Batubara 2000; Tjandraningsih 2002).
- 10 Interview with local union official.
- 11 The preman phenomenon has been manifestly evident in Banten, where they have engaged on the employer's behalf in cases of labour conflict, both on the employer's behest and on their own initiative. Sometimes preman even have the power to dismiss workers, and engage in physical intimidation (Interview with NGO activist in Serang, Banten, 2005).
- 12 The labour situation at this time is no different from the situation two decades ago when foreign investment, particularly in labour-intensive industries such as the textile, garment and footwear industries, was drawn to Indonesia by the offer of special conditions and high tolerance of the violation of workers' rights in order to create job opportunities.
- 13 Caraway arguest that in many ways fragmentation in the union movement (the regulation of new unions, finance and collective bargaining) has actually strengthened SPSI's hegemony (2006: 13-14).